

# FDIC State Profile

Spring 2006

## New Jersey

New Jersey's economic activity eased slightly in the second half of 2005; job gains in business and financial services offset losses in higher-paying manufacturing and information industries.

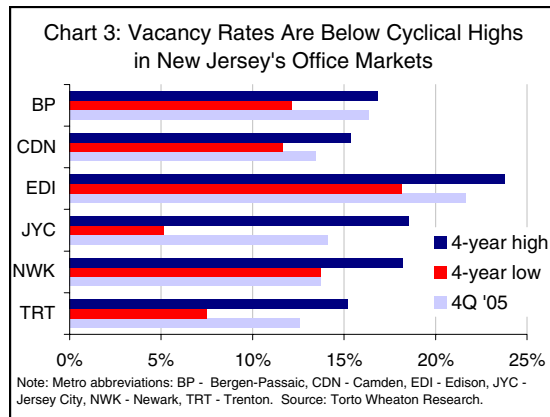
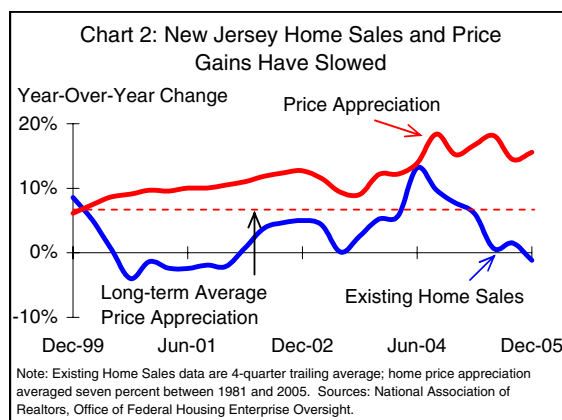
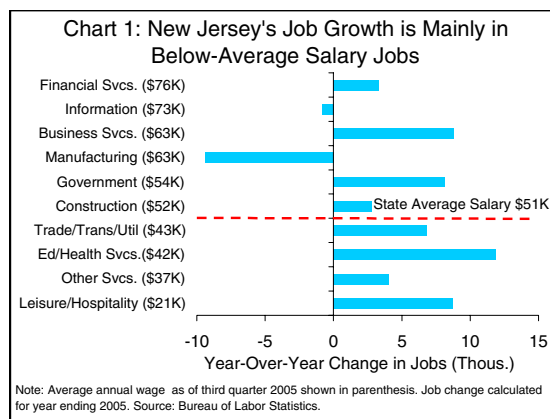
- New Jersey's employment growth declined modestly during the second half 2005. The fourth quarter job growth approximated 1.1 percent, just slightly below the third quarter rate. Although New Jersey's rate of job growth continued to trail the nation, the difference between the state and the nation has narrowed.
- In 2005, the state added 44,100 net new jobs. Employment gains in financial and business services, sectors with salaries well above the state average, more than offset job losses in New Jersey's other higher-paying sectors such as manufacturing and information technology. Almost sixty percent of all new jobs during the year were in sectors with salaries below the state average (see Chart 1). Most of these jobs were associated with increased employment in health care facilities, hotels and restaurants.
- Job growth rates were highest in the **Atlantic City** and **Trenton** metropolitan areas. More than three quarters of the new jobs added in Atlantic City were in below-average salaried sectors, while the preponderance of new jobs in Trenton were in the government sector.

New Jersey's housing activity has eased from an elevated pace.

- Home prices continued to climb in New Jersey; however, the rate of trajectory has stabilized. In fourth quarter 2005 average home appreciation in the state was 15.6 percent, twelfth highest in the nation.
- New Jersey's rate of home sales declined by year-end 2005, while price appreciation, though well above the state's long-term average, was uneven (see Chart 2). Declining sales activity coincides with a growing inventory of homes on the market and increased time required to sell them. A slowdown in home sales and higher inventory levels could portend an easing in appreciation rates in 2006.

New Jersey's office market conditions stabilized, though demand for space has slowed.

- In the fourth quarter 2005, office vacancy rates in the state's submarkets were down from highs reached during



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the past four years (see Chart 3). Easing vacancy rates, in part the result of reduced job losses in the information sector, were accompanied by a slight improvement in office rental rates.

- However, new construction and easing employment growth may weigh on New Jersey's office markets. Office space increased by over 1.6 million square feet in 2005, double the 2004 amount, and office employment growth, an indicator of demand for space, has declined.

### New Jersey's FDIC-insured institutions reported lower profitability in 2005, and the interest rate environment remains a challenge.

- Profitability declined moderately in 2005 despite strong loan growth and very favorable credit quality conditions. Loan growth at 14.4 percent was eighth highest nationally, and the median past-due loan ratio at 0.76 percent was almost one-half the national ratio.
- However, bank net interest margins (NIMs) for institutions headquartered in New Jersey faced headwinds in the flattening yield curve environment. Several interest rate events have helped shape margin trends in recent years (see Chart 4). During the 2001 recession, NIMs widened as short-term interest rates declined at a pace not seen in 20 years helping banks to reduce funding costs. Subsequently, long-term rates dropped to 50-year lows spurring a record residential mortgage refinancing wave and pushing bank asset yields and NIMs to near record lows. Margins improved somewhat following the refinancing wave but resumed their decline in 2005 in response to the flattening yield curve.
- Residential lenders, which compose a significant share of New Jersey's banks (40 percent compared with 10 percent nationally), typically rely heavily on the spread between long- and short-term interest rates. As a result, these institutions are unlikely to experience margin expansion in a flat yield curve environment. During 2005, a relatively flat yield curve period, less than one-third of New Jersey's residential lenders reported widening of NIMs compared with almost one-half of the state's other insured institutions.

### An increase in short-term interest rates and shift in deposit mix contributed to higher funding costs in 2005.

- New Jersey's median cost of funds increased steadily in 2005 in response to rising short-term interest rates (see Chart 5). Growth in certificates of deposit accounts (CDs) also contributed to higher funding costs. CDs, which typically offer higher yields than other deposit products, increased to 37 percent of deposits in 2005, reaching their highest level in four years. Depositors were attracted to

higher rates offered on CDs relative to other deposit products.

### Commercial real estate (CRE) loan concentration levels have increased among FDIC-insured institutions.

- During the past four years, New Jersey-based institutions have reported increasing levels of CRE loan concentrations, exceeding the level nationally (see Chart 6). CRE loan credit quality, however, remained favorable. The fourth quarter 2005 median past-due ratio of CRE loans reported by New Jersey-based institutions was 0.13 percent, improved from a year-ago, and significantly below the national average.

Chart 4: The Dynamic Interest Rate Environment is Reflected in NIMs of New Jersey Insured Institutions

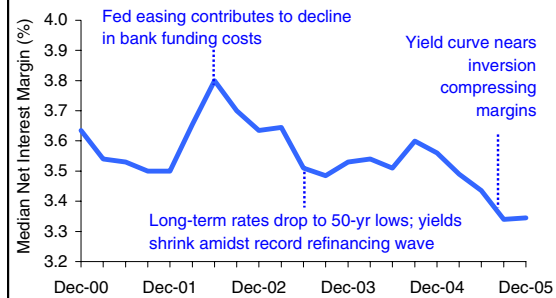


Chart 5: Funding Costs Increased in New Jersey in 2005 Following the Rise in Short-term Rates

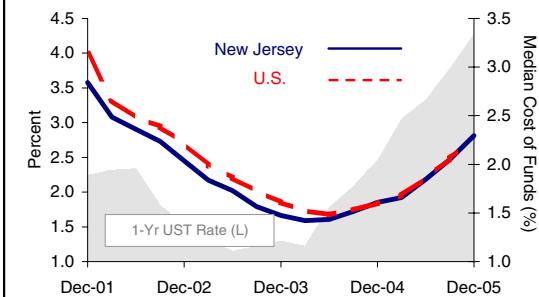
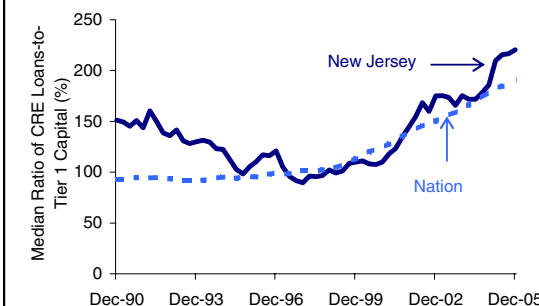


Chart 6: New Jersey Insured Institutions Report Increasing CRE Loan Levels



## New Jersey at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

| <b>Employment Growth Rates</b>  | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|---|--------------|--------------|--------------|-------------|-------------|
| Total Nonfarm (share of trailing four quarter employment in parentheses)    | 1.1%         | 1.1%         | 0.7%         | 0.5%        | -0.1%       |
| Manufacturing (8%)  | -3.0%        | -3.3%        | -3.0%        | -3.5%       | -4.6%       |
| Other (non-manufacturing) Goods-Producing (4%)                              | 1.7%         | 1.4%         | 3.8%         | 3.4%        | -1.3%       |
| Private Service-Producing (72%)   | 1.6%         | 1.6%         | 0.6%         | 0.5%        | 0.2%        |
| Government (16%)  | 0.7%         | 1.2%         | 2.3%         | 1.8%        | 1.4%        |
| Unemployment Rate (% of labor force)  | 4.5          | 4.4          | 4.5          | 4.9         | 5.8         |
| <b>Other Indicators</b>   | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
| Personal Income   | N/A          | 5.3%         | 7.5%         | 5.5%        | 1.6%        |
| Single-Family Home Permits  | -4.1%        | -3.5%        | -3.4%        | 4.7%        | -2.8%       |
| Multifamily Building Permits  | 8.6%         | 17.4%        | 10.9%        | 40.8%       | 20.3%       |
| Existing Home Sales   | -7.7%        | 3.4%         | 4.0%         | 8.4%        | 4.9%        |
| Home Price Index  | 15.6%        | 14.5%        | 15.2%        | 15.0%       | 10.5%       |
| Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level) | 7.14         | 5.32         | 4.12         | 4.66        | 4.80        |

**BANKING TRENDS**

| <b>General Information</b>                              | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|---|--------------|--------------|--------------|-------------|-------------|
| Institutions (#)  | 136          | 135          | 139          | 139         | 146         |
| Total Assets (in millions)                              | 157,810      | 155,870      | 167,719      | 167,719     | 152,174     |
| New Institutions (# < 3 years)                          | 7            | 4            | 5            | 5           | 6           |
| Subchapter S Institutions                               | 4            | 4            | 4            | 4           | 4           |
| <b>Asset Quality</b>                                    | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
| Past-Due and Nonaccrual Loans / Total Loans (median %)  | 0.76         | 0.65         | 0.88         | 0.88        | 0.85        |
| ALLL/Total Loans (median %)                             | 0.95         | 0.99         | 1.00         | 1.00        | 1.03        |
| ALLL/Noncurrent Loans (median multiple)                 | 2.58         | 2.63         | 2.39         | 2.39        | 2.58        |
| Net Loan Losses / Total Loans (median %)                | 0.00         | 0.00         | 0.00         | 0.00        | 0.00        |
| <b>Capital / Earnings</b>                               | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
| Tier 1 Leverage (median %)                              | 10.12        | 9.99         | 9.49         | 9.49        | 8.89        |
| Return on Assets (median %)                             | 0.71         | 0.78         | 0.83         | 0.82        | 0.79        |
| Pretax Return on Assets (median %)                      | 1.01         | 1.19         | 1.18         | 1.23        | 1.15        |
| Net Interest Margin (median %)                          | 3.34         | 3.34         | 3.56         | 3.54        | 3.55        |
| Yield on Earning Assets (median %)                      | 5.54         | 5.42         | 5.12         | 5.03        | 5.19        |
| Cost of Funding Earning Assets (median %)               | 2.30         | 2.05         | 1.61         | 1.52        | 1.63        |
| Provisions to Avg. Assets (median %)                    | 0.04         | 0.04         | 0.05         | 0.06        | 0.07        |
| Noninterest Income to Avg. Assets (median %)            | 0.29         | 0.32         | 0.33         | 0.31        | 0.39        |
| Overhead to Avg. Assets (median %)                      | 2.57         | 2.50         | 2.56         | 2.58        | 2.63        |
| <b>Liquidity / Sensitivity</b>                          | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
| Loans to Assets (median %)                              | 61.8         | 61.5         | 60.0         | 60.0        | 57.5        |
| Noncore Funding to Assets (median %)                    | 18.6         | 18.6         | 16.4         | 16.4        | 16.1        |
| Long-term Assets to Assets (median %, call filers)      | 26.6         | 26.3         | 29.5         | 29.5        | 33.4        |
| Brokered Deposits (number of institutions)              | 31           | 30           | 28           | 28          | 21          |
| Brokered Deposits to Assets (median % for those above)  | 3.4          | 3.7          | 2.7          | 2.7         | 2.7         |
| <b>Loan Concentrations (median % of Tier 1 Capital)</b> | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
| Commercial and Industrial                               | 19.8         | 20.9         | 29.9         | 29.9        | 31.3        |
| Commercial Real Estate                                  | 220.5        | 216.5        | 185.9        | 185.9       | 175.2       |
| Construction & Development                              | 32.3         | 26.3         | 19.2         | 19.2        | 14.5        |
| Multifamily Residential Real Estate                     | 6.4          | 6.9          | 6.9          | 6.9         | 6.7         |
| Nonresidential Real Estate                              | 132.2        | 133.5        | 137.4        | 137.4       | 130.6       |
| Residential Real Estate                                 | 236.0        | 237.2        | 241.7        | 241.7       | 250.1       |
| Consumer  | 2.5          | 3.2          | 3.7          | 3.7         | 4.7         |
| Agriculture   | 0.0          | 0.0          | 0.0          | 0.0         | 0.0         |

**BANKING PROFILE**

| <b>Largest Deposit Markets</b>                     | <b>Institutions in Market</b> | <b>Deposits (\$ millions)</b> | <b>Asset Distribution</b>    | <b>Institutions</b> |
|--|-------------------------------|-------------------------------|------------------------------|---------------------|
| New York-Northern New Jersey-Long Island, NY-NJ-PA | 233                           | 770,488                       | < \$250 million              | 58 (42.6%)          |
| Trenton-Ewing, NJ                                  | 25                            | 9,302                         | \$250 million to \$1 billion | 51 (37.5%)          |
| Atlantic City, NJ                                  | 17                            | 4,571                         | \$1 billion to \$10 billion  | 23 (16.9%)          |
| Ocean City, NJ                                     | 13                            | 2,529                         | > \$10 billion               | 4 (2.9%)            |
| Vineland-Millville-Bridgeton, NJ                   | 10                            | 1,829                         |                              |                     |